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Approved by:

Robert Wicks

U.S. Embassy, Madrid

Prepared by:

Leonor Ramos

Report Highlights:

Portugal's 1999/00 sugar output totaled 75,984 Mt. Due to surpassing mainland Portugal's 70,000 MT EU-assigned sugar quota in 1999/00, the 2000/01 production quota will be reduced, and output is forecast to decline. Sugar imports, consisting primarily of raw cane sugar for refining, remain stable at the EU-set 292,000 Mt import quota. Due to the EU's preferential trade regime, U.S. sugar exports to Portugal are insignificant. 1 USD = 210 PTE.

Includes PSD changes: Yes

Includes Trade Matrix: No

Unscheduled Report

Madrid [SP1], PO

TABLE OF CONTENTS

Executive Summary	1
Commodity Name: Centrifugal Sugar	2
Production, Supply & Distribution Table	2
Production	2
Consumption	3
Trade	4
Policy	4
Sugar Quotas	4
Intervention prices	5
The Import Regime	5
Export Subsidies	6
The 2000 EU Sugar Policy Revision	6
Commodity Name: Sugar Beets	7
Production, Supply & Distribution Table	7
Production	7
Consumption	8
Policy	8

Executive Summary

Rising since 1997 when mainland Portugal's sugar beet processor DAI started to operate, 1999/00 centrifugal sugar production reached an estimated 75,984 tons, of which 75,393 Mt was produced on the mainland and 591 tons in the Azores Islands. This meant the 70,000 ton EU-assigned sugar quota was surpassed by 5,393 tons, and this quantity has been taken from the 2000/01 quota balance. Due to this reduction, total 2000/01 centrifugal sugar production is expected to decline to 59,250 Mt, with 58,700 coming from the mainland. Given the EU policy of discouraging of over-quota production, national centrifugal sugar production should tend to remain between the level of mainland Portugal's "A" sugar quota (eligible for 98% of EU-set intervention price) of 63,600 Mt and the full 70,000 Mt quota. Azorean contribution to the national total is expected to remain small due to insufficient attractiveness of sugar beet production, with centrifugal sugar outputs on the islands forecast to remain at 500 to 1,000 Mt.

Centrifugal sugar use is declining moderately due to lower demand from key sugar-consuming industries, such as chocolate, confectionary, and ice-cream manufacturers, as well as lower direct home consumption. Only consumption from the HRI sector is experiencing growth, but insufficient to off-set the reduction in the other segments. Centrifugal sugar use in 1999/00 is estimated at 289,000 Mt, and a slight decline is forecast for 2000/01. National medium-term sugar consumption will tend to remain mostly stable, with a slight declining trend as imports of products containing sugar continue to expand, depressing local industrial sugar demand.

Mostly stable, imports are primarily raw sugar brought in by the local cane sugar refining industry under EU-set import quotas. Totalling 292,000 Mt in July 1999/June 2000, a level which is expected to remain unchanged in 2000/01, the EU-set total sugar import quota is broken down into sub-quotas, some tariff-free and others subject to a reduced tariff regime under the EU's different preferential trade agreements. No significant change in medium-term imports is anticipated for Portugal.

With the current EU sugar policy ending in 2000/01, its revision is scheduled to be initiated during the French EU Presidency the second semester of 2000. While the EU Commission is developing a proposal to revise the policy, it is expected that ultimately most facets of the present regimen will be maintained. As far as Portugal is concerned, possible changes could include a revision of intervention prices or an adjustment in production quotas to accommodate potential for production increases.

1 USD = 210 PTE

Commodity Name: Centrifugal Sugar

Production, Supply & Distribution Table

PSD Table						
Country	Portugal					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Beginning Stocks	33	30	30	12	0	30
Beet Sugar Production	66	66	66	75	0	59
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	66	66	66	75	0	59
Raw Imports	310	290	310	310	0	304
Refined Imp.(Raw Val)	1	2	1	2	0	2
TOTAL Imports	311	292	311	312	0	306
TOTAL SUPPLY	410	388	407	399	0	395
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	85	86	80	80	0	79
TOTAL EXPORTS	85	86	80	80	0	79
Human Dom. Consumption	295	290	297	289	0	288
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	295	290	297	289	0	288
Ending Stocks	30	12	30	30	0	28
TOTAL DISTRIBUTION	410	388	407	399	0	395

Production

Up from the previous year, Portuguese 1999/00 centrifugal sugar production was higher than anticipated due to the processing of significant quantities of imported beets from Spain. The EU-assigned 70,000 Mt sugar quota was surpassed. On the *Azores* islands, where sugar production from beets was once a flourishing activity, a continuing decline in beet production further depressed sugar production.

Centrifugal sugar production is expected to decline in 2000/01 due to penalties triggered by overshooting the quota in 1999/00, which led to a decline in 2000/01 quota balance. On the *Azores*, where beet production is becoming increasingly less economically viable, another reduction in locally produced centrifugal sugar is anticipated for 2000/01. For total white sugar production in 1999/00 and 2000/01, see table below.

Portugal: White Sugar Production (Mt)

	1998/99	1999/00	2000/01 (*)
Mainland Portugal	65,310	75,393	58,700
Azores	618	591	550
TOTAL	65,928	75,984	59,250

SOURCE: MINISTRY OF AGRICULTURE; (*) FORECAST.

No major changes in production are anticipated for the medium-term future. Output is expected to remain between the level of the more attractive "A Quota", which is eligible to 98% of EU intervention price for sugar, and that of the total quota. Expansion is not viable due to the EU sugar regime, and the fact that Portugal has become a sugar surplus country (see more under Policy). While processor DAI will pursue an increase in the production quota during the coming revision of the EU sugar regime, no evidence suggests that this will be accepted. As for the *Azores*, constraints to beet production will limit centrifugal sugar production over the medium-term future.

Indigenous white sugar comes exclusively from sugar beet processing in two plants. D.A.I., located between two large agricultural provinces of *Alentejo* and *Ribatejo*, boasts a 100,000 Mt white sugar production capacity, an average daily beet processing capacity of 5,000 Mt, yearly sugar, molasses and dry pulp outputs of 70,000 Mt, 35,000 Mt and 30,000 Mt, respectively, and sales of 12 billion Pte/year. SINAGA, located in the *S. Miguel* Azorean island, processes beets at a rate of 1,000 Mt a day, with a yearly production of 6,000 Mt and sales of 1.34 billion PTE.

Consumption

Sugar use is forecast to fall due to decline in demand from the local chocolate, confectionary, and ice-cream industries, and depressed direct home use. Only the HRI sector shows moderate expansion. Alternative sweeteners are said to account for some 7,000 Mt/year. One company produces HFCS from corn under a 10,000 Mt EU-assigned production quota. All of the locally produced HFCS is used domestically.

The bulk of domestic refined sugar continues to come from imported cane sugar, which is then refined by the local sugar refining industry. There are two sugar refineries in mainland Portugal. *Alcântara Açúcar* has a nominal processing capacity of 33 Mt white sugar/hour, an average yearly production of 160,000 Mt of white sugar and a 25 billion Pte business value. *Refinadoras de Açúcar Reunidas* (R.A.R.) has a processing capacity of 17 Mt white sugar/hour, a yearly production of 130,000 Mt of white sugar and a business value of 20 billion Pte. The Azorean SINAGA also refines imported raw sugar to supplement declining beet sugar processing.

Prices

Because EU-set institutional prices have not changed, local sugar prices have remained mostly stable in recent years. Reportedly, wholesale prices have remained unchanged from a year ago, at roughly 165 Pte/Kg at factory gate. Though official prices remain stable, price-cutting to promote sales is becoming more common in association with the growing local supply of sugar.

Trade

Consisting primarily of raw sugar for refining, total centrifugal sugar imports have remained stable on a July/June basis, the EU marketing year for sugar which is utilized for setting the yearly raw sugar import quota (see Policy). No change for the medium-term future.

Due to the higher local production, exports have increased. Significant quantities of surplus sugar was exported into the EU, mostly Spain. However, most of the exports were directed to non-EU destinations, with the assistance of EU export subsidies. Other than some 12,000 Mt which were exported into third countries during 1999, most of the subsidized exports were refined raw cane sugar. In the future, total exports are expected to decline as a result of EU reductions in allowable export subsidies in line with GATT commitments. Nonetheless, exports to other EU should increase, particularly shipments to Spain. Portugal's 1998/99, 1999/00 and 2000/01 Trade Matrices are provided in table below.

Portugal: Sugar Trade Matrix (Units: Mt)

	1998/99	1999/00	2000/01
Total Sugar Imports			
Non-EU	291,180	311,400	301,300
EU	451	600	700
Total	291,631	312,000	302,000
Total Sugar Exports			
Non-EU	54,012	48,000	46,000
EU	31,873	32,000	33,000
Total	85,885	80,000	79,000

Policy

Sugar Quotas

The EU Sugar policy is applied in Portugal. There are two separate EU-set sugar quotas for mainland Portugal and the Azores, which are further broken down into "A" and "B" sub-quotas. Sugar produced under the "A" quota is eligible for 98% of intervention price, whereas sugar produced under the "B" quota is eligible for a lower percentage of the intervention price, normally 68% of the Intervention Price, but susceptible to be further reduced to 60.5%. All sugar which is produced under the so-called "C" quota, that is in surplus of the "A" and "B" quotas, cannot be sold in the EU and must be exported into the international market without subsidy. For Portugal's currently effective sugar quotas,

see table below.

PORTUGAL: EU-set Sugar Production Quotas

	"A" Quota	"B" Quota	Total
Mainland Portugal	63,600 Mt	6,400 Mt	70,000 Mt
Azores	9,100 Mt	900 Mt	10,000 Mt
Total	72,700 Mt	7,300 Mt	80,000 Mt

Intervention prices

EU-set intervention prices in Portugal are still higher than in most EU regions, as Portugal is considered a sugar "deficit" country. Sugar intervention prices in Portugal and in surplus EU countries are shown below.

EU-Set Sugar Intervention Prices

	1998/99	1999/2000
	Units: Euros/Kg	
EU	63.19	63.19
Portugal	64.65	64.65

The Import Regime

Portugal's total raw sugar quota is divided into different sub-quotas. Levels in effect during 1998/99 and 1999/00 (EU July/June marketing year) are shown below.

Portuguese Raw Sugar Import Quotas (White Sugar Basis)

Units: 1,000 Mt

	1998/99	1999/00
Tariff-Free		
DOM 1/	25.0	25.0
ACP Countries (Under Protocol)	17.0	17.0
Reduced Tariff Regimen		
Cuba + Brazil + S. Salvador	250.0	250.0
SPS Countries 2/		

TOTAL	292.0	292.0
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1/ French Overseas Domain; Sugar is brought in as an EU product, but
subject to a specific regime; 2/ Special Preferential Sugar

A special raw sugar import regime exists for the Azores and Madeira islands, under the special program for ultra-peripheral EU regions. Under this program, raw sugar can be imported into the islands up to pre-set limits either from non-EU countries tariff-free, or from the EU with payment of EU subsidies to the buyer. The 1999/00 and 2000/01 POSEIMA raw sugar quotas are given in table below.

**Portuguese Raw Sugar Import Quotas under the
POSEIMA Program**

	1999/00	2000/01
Units: Metric Tons		
Azorean Islands	6,500	6,500
Madeira Islands	10,000	10,000
TOTAL	16,500	16,500

Export Subsidies

Though Portugal is considered a deficit sugar country, the operation of D.A.I. has turned it into a surplus producer, and has become a sugar exporter. The National Guarantee Institute reports that 3,387 million PTE were paid during CY-1998 for sugar export subsidies. This is the largest share total EU export subsidies paid to Portugal's agricultural exports (6,300 million PTE). Due to a reduction in the EU's use of export subsidies, brought about by GATT commitments, sugar exports are forecast to decline in the future.

The 2000 EU Sugar Policy Revision

With current EU sugar policy scheduled to end 2000/01, EU Sugar reform is expected to be debated during the French EU Presidency in the second semester of 2000. Nonetheless, observers in Portugal believed the current policy will simply be extended with few modifications. Possible changes for Portugal may include a change in status from being defined as "deficit" to "surplus" sugar country. This would also effect the level of EU-set intervention prices. A modification of the current production quota regime may also be considered, in line with the local industries desire for a production quota enlargement. Some have called for combining the mainland and Azores quotas. There is not yet an official GOP position, but the project is reportedly opposed by the Azorean authorities.

Commodity Name: Sugar Beets

Production, Supply & Distribution Table

PSD Table						
Country	Portugal					
Commodity	Sugar Beets				(1000 HA)(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	3	3	3	8	0	9
Area Harvested	3	3	3	8	0	9
Production	164	164	420	422	0	475
TOTAL SUPPLY	164	164	420	422	0	475
Utilization for Sugar	164	164	420	422	0	475
Utilizatr for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	164	164	420	422	0	475

Production

Increasing since mainland sugar beet processor DAI started operating in 1997, harvested 2000 beet areas are expected to be up relative to 1999. Under the target 10,000 HA for mainland Portugal's entire sugar quota, DAI's contracted 1999/00 beet areas are enough for this year's sugar manufacturing needs, considering that last year's over the quota surplus was transferred into this year's balance (see Sugar). In the *Azores* islands, where once sugar beet production flourished, 2000 beet areas have come down again relative to the previous year, with extremely adverse weather conditions preventing Autumn planting. Insufficient water for irrigation and low precipitation in Autumn-99 affected Autumn seeding. Out of the total, 2,000 ha were seeded in the *Ribatejo* and only 900 ha in the *Alentejo*, the most drought-sensitive region. A very dry Winter, followed by unusual April and May precipitation, also affected Spring planting. Given planted area, sugar production is expected to be between the "A" quota and Total quota levels (see also Sugar). In the future, sugar beet area will tend to remain under the ceiling of 10,000 ha.

Cultivated experimentally for many years, sugar beet production only became a serious option for local farmers when DAI became operative four years ago. Yields have been consistently rising, in both physical outputs and sucrose content of the beets. The attractive incomes secured by EU subsidies, a beet factory in mainland Portugal, and the relatively low technical risks of the crop, make sugar beet production an attractive crop.

Area contracting by DAI is done through a yearly agreement with the beet growers association. Production rights have been assigned among the producers and these entitle the farmers to continue producing sugar beets in the future. The processor, D.A.I., provides technical support to the farmers and provides a transportation premium depending on the

distance of the producer from the plant. This is also set in the inter-professional agreement.

Contrary to mainland Portugal, Azorean sugar beet production is declining, unable to compete with the expanding dairy activity. High labor requirements due to the fragmented property structure and the high labor costs have made this crop increasingly unattractive even with subsidies. This situation is not expected to turn around in the future. Beet production in the Azores is assisted by a special EU co-financed program for ultra-peripheral regions, the POSEIMA, under which special subsidies are paid to the producers.

Portugal: Average Polarization Grade of Sugar Beets

	1997/98	1998/99	1999/00
Mainland Portugal	16.3	15.6	15.4
Azores	12.6	14.1	13.9

SOURCE: OFFICE OF PLANNING

Consumption

Consumption of nationally-produced sugar beets has been going up since D.A.I. started operating in 1997. Until 1999/00, DAI consumed variable quantities of Spanish beets, which were brought in from Spain by rail to fill up its operational needs. In 2000/01, D.A.I. will reportedly use only locally-produced beets. In the future, DAI's needs are expected to be sourced 100 percent locally.

Policy

EU sugar beet production incentives are effective in Portugal. Accordingly, sugar beet production is subject to minimum purchase prices which are kept by the sugar factory. Additionally, Portugal was allowed by the EU to grant a degressive support to mainland Portugal's sugar beet production during the 1998/99 to 2001/02 period (EU Reg. 2613/97, dated December 15). Below are EU-set minimum beet prices and national sugar beet subsidies.

**Portugal: Minimum Purchase Prices of Sugar Beets
during 1997/98 and 1998/99**

Minimum Producer Prices	
46.72 EUROS/Mt	Quota A
32.42 EUROS/Mt	Quota B

**Portugal: National Subsidies to
Sugar Beet Production**

Marketing Years	Pte/Mt of Sugar Beets (a)
1998/1999	1,600
1999/2000	1,200
2000/2001	800

(a) Sugar Beets with 16° Polarization